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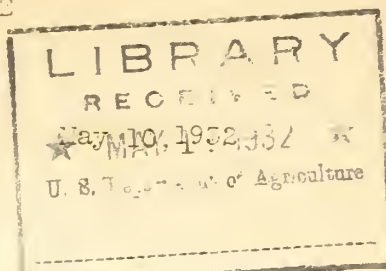
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UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics
Washington

T-11

THE TOBACCO PRICE SITUATION



The Flue-cured Tobacco Situation at Planting Time 1/

Growers reports of intentions to plant on March 1 indicated that they were planning to reduce the acreage of flue-cured tobacco 27 per cent below that harvested in 1931, according to the Bureau of Agricultural Economics. More recently it has appeared that additional reductions may be made this year on account of the poor condition of plant beds due to damage from cold weather, insect pests and diseases. Blue mold, particularly, is reported to be very prevalent. However, the extent of damage is not known as yet, so that the amount of reduction caused by it cannot be definitely determined. Present reports indicate that the injury has been most severe in Georgia and the eastern Carolinas.

From the March 1 intentions, voluntary reductions in acreage were reported to be greatest in the more southern parts of the district and in Virginia; they were least in southeastern North Carolina. In the different type belts the amounts of reduction, expressed in per cent of the 1931 acreage, were as follows: Old belt, type 11, 29 per cent; Eastern North Carolina belt, type 12, 24 per cent; South Carolina belt, type 13, 24 per cent; Georgia and Florida belt, type 14, 40 per cent. Private trade reports now estimate that, on account of plant shortage, the 1932 acreage will be reduced considerably more than this, particularly from eastern North Carolina southward.

Supplies in the United States

The acreage indicated by the intentions of March 1, with average yields, would produce a crop of around 500 million pounds of flue-cured tobacco. This would be smaller than any crop produced during the last seven years. It would also be smaller than the disappearance for any year during this period, and at least 30 per cent less than the disappearance of any of the past three years. (See fig. 1) In case plant shortage reduces acreage materially beyond this the comparison will be even more striking. However, since domestic consumption continues at a reduced rate and exports thus far have been 27 per cent below those for the corresponding nine months of the 1930-31 season, and 19 per cent below the 5-year average 1925-26 to 1929-30, it seems altogether likely that stocks on July 1, 1932 will be fully as large as a year earlier, notwithstanding the relatively small crop of 1931. Thus, the percentage reduction in total supply does not promise to be anything like as great as that in production, possibly not half as great.

1/ Planting dates for flue-cured tobacco usually extend from around March 25 to April 25 in northern Florida and Georgia to about May 15 to June 15 in northern North Carolina and Virginia. Although in some years a part of the setting may be done somewhat beyond these dates it is probably too late now for transplanting in the southern part of the district.

At this time much importance attaches to the available supply of sound plants, and the dates on which they can be transplanted. Any limitation upon plants will, of course, act in the same manner as a voluntary acreage reduction and give a smaller crop than that which had been indicated. On the other hand, delay in planting, due to retarded development of plants, may have no effect upon the size of the crop but may have a very great effect upon quality, particularly since the use of fertilizers promises to be somewhat curtailed.

At times when supplies are large, or, when demand becomes weakened, tobacco markets usually are quite sensitive to variations in quality. This was especially evident in the case of the 1931 crop and it does not seem likely that the situation will be materially different by the time farmers are ready to sell their 1932 crop. In general, the 1931 crop was somewhat disappointing in quality and the low prices paid for it were due to the combined effect of this and the reduced demand. However, where good quality was produced, it commanded excellent premiums and continued in favor throughout the season. By reference to Table 1, page 5, it will be noted that the so-called cigarette grades brought very good prices. Most of the cutters, and fine to good lugs sold at prices which compared favorably with those of 1930-31 as well as 1929-30. Prices for high quality heavy leaf also held up well. On the other hand, the lower qualities of leaf and lugs were very greatly discounted. Considerable quantities of this tobacco either would not command an offer at all or were bid in at prices below actual selling charges.

Dealers and manufacturers already have large stocks of low grade tobacco, and the outlook for reducing them materially before the opening of next marketing season is not very encouraging. Exports, which usually account for a considerable share of our lower quality production, have fallen to a very low level. China, especially, has made drastic reductions in purchases during 1932, and recent reports indicate that stocks in that country are unusually large. Thus, it is likely that low quality tobacco again may meet with disfavor, notwithstanding the fact that production promises to be materially reduced. In any event, it appears certain that farmers will not obtain maximum benefits from acreage reduction unless they succeed in producing a high quality crop.

Production in other countries

During the past decade the commercial production of flue-cured tobacco has been extended to a number of foreign countries. China, Canada, South Africa and Australia, each has been successful in producing tobacco of this type, practically all of which enters competition with that grown in this country. Except in South Africa, where the production usually is less than 20,000,000 pounds annually, most of this competition takes place within the country of production, as they are all important users of flue-cured tobacco from the United States. Although the total output of these four countries probably has not yet reached 150,000,000 pounds per year it has been increasing rapidly, and the area is reported to be capable of very great expansion. In general, however, the quality of leaf produced in these new areas is inferior to that grown in the United States, and, thus far, it has been necessary to use with it considerable quantities of imported leaf. As time goes on, quality will undoubtedly be improved and when consumers become more accustomed to the flavor and aroma of the locally grown product it appears certain that our foreign market will be at least partly reduced. How rapidly such developments

will come, and to what extent they will affect exports, cannot, of course, be determined, but these are facts which must be kept in mind by flue-cured growers in planning for the future.

The so-called "Oriental" types of tobacco produced in the Near East (i.e. Eastern Europe and Western Asia) also compete with American flue-cured tobacco. In this case, however, the form of competition is somewhat different. The two kinds of tobacco are used for practically identical purposes in different countries, and to some extent by individual smokers within the same country. However, each type of leaf has such distinctive properties of flavor and aroma that they are seldom, if ever, used as immediate substitutes for each other. Persons accustomed to products made largely from American grown tobacco are not readily satisfied with products made largely from Oriental tobacco, and vice versa. As a rule, smokers are slow to change their preferences from one flavor or blend of products to another so that, over short periods, at least, the amount of direct competition between flue-cured and Oriental tobacco does not appear to be great. Over longer periods it is quite possible that large numbers of consumers may make definite shifts from one kind of tobacco to the other, but at present there is no clear evidence that any such moves are taking place.

Domestic consumption

The domestic consumption of tobacco products has been reduced materially during the present depression. This is in marked contrast to other recent years when total consumption had been increasing. According to the monthly reports of the Commissioner of Internal Revenue this decline is still going on. (See Table 2) Except for smoking tobacco, for which there has been a small increase in consumption, all classes of products have been affected, but apparently the cheaper products have not suffered as much as the more expensive ones. This is indicated by the substitution of home-rolled cigarettes and pipe mixtures for ready-made cigarettes, as well as the substitution of cigars retailing at 5 cents each, or less, for higher priced cigars.

Of the products made from flue-cured tobacco there has been a decrease in cigarettes and an increase in manufactured tobacco (smoking and chewing). However, it does not appear likely that the two changes have offset each other. It is probable that there has been a net decline in flue-cured consumption amounting to around 5 or 6 per cent. The loss in cigarette consumption during the nine months July to March 1931-32, compared with the same period a year earlier, was 10.3 per cent, whereas the contrasting gain in manufactured tobacco was only 1.4 per cent. Inasmuch as the quantity of flue-cured used for cigarettes has been variously estimated to be from two to three times as great as that used for manufactured tobacco, it is evident that the decrease in cigarette consumption has had a greater influence than the increase in manufactured tobacco.

The principal factors causing these changes in consumption have been the decreased buying power of consumers and the continued high prices for tobacco products. Since the heavier rates of consumption normally occur in industrial centers the present low business activity and its resulting unemployment have affected large numbers of tobacco consumers. Retail prices of tobacco products, on the other hand, have practically all remained unchanged, or, as in the case of the leading brands of cigarettes, actually increased. The latter has resulted from a general increase in wholesale prices which occurred in June 1931, and, in some instances, the addition of stamp taxes by individual States.

Exports

The exports of flue-cured tobacco, like those of other domestic types, have been materially below normal this season. For the period from July 1931 to March 1932 flue-cured shipments totaled only 245.5 million pounds. This is 27 per cent less than the quantity exported during the same nine months of 1930-31 and 19 per cent less than the 5-year average, 1925-26 to 1929-30. (See figs. 3 and 4)

Exports to the United Kingdom have been at a reduced level since early last fall. An increase in the import tariff on foreign grown from \$2.15 to \$2.31 per pound on September 10 1/, and later the abandonment of the gold standard, resulting in a depreciation of British currency, have adversely affected this trade. Stocks of flue-cured in the United Kingdom now have shown some reduction, but, in view of the large decline in British cigarette exports and the more recent failure of home consumption to show its customary increase, manufacturers apparently have not been concerned about replacements. The present stocks is calculated to represent about 22 months supply, based upon average requirements for the past three years. On March 31 flue-cured holdings at the three ports of entry, London, Liverpool, and Glasgow were 11 per cent less than on the same date in 1931 and 5 per cent less than in 1930. Stocks of tobacco other than flue-cured have not shown any significant contrasting behavior.

In the case of China the export movement appears to have been about normal until military operations began to have their effect. Since January 1932 shipments to that country have been very greatly curtailed, and, according to a report dated April 20, unusually large stocks are now on hand there. The operation of cigarette factories has been greatly hampered by the recent hostilities. Also, a new cigarette tax which became effective March 21 has been causing increased difficulty among the Chinese manufactures. The new regulation provides for a reclassification of cigarettes, according to price groups, and changes in the rates of taxation. The net effect has been to increase the tax about 40 per cent on what was formerly the lowest priced group and to decrease it about 30 per cent on what was formerly the medium priced group, making the two rates the same. Since under the old system about 75 per cent of all Chinese consumption was in the lowest priced group the influence of these changes is being widely felt. This is particularly true of factories operated with Chinese capital where most of the low priced cigarettes recently have been produced. Eventually, it is anticipated that the measure will permit a smoother graduation of prices and make possible the use of better quality American leaf in many brands without the handicap of additional taxation. However, it is too early yet to determine the effect upon total consumption of American flue-cured tobacco. At present, the factories in Shanghai are operating at only about 50 per cent capacity.

For most other countries the purchases of flue-cured tobacco have been on a reduced scale. Some of the reasons for this have been reduced consumption, difficulties in credit and finance, and high tariffs and taxes upon imports and sale. In Australia and Canada an additional handicap has been provided by the various local measures for increasing home production. The recent tendency of manufactures to follow a policy of hand-to-mouth buying has caused much uncertainty as to when more normal purchases may be resumed. However, individuals in the tobacco trade are not expecting any large or sudden revival in flue-cured exports, at least, not in the very near future.

1/ The rate on Empire grown leaf also was increased 16 cents per pound i.e., from \$1.61 to \$1.77. The conversion of these duties into United States currency has been made on the basis of exchange at par. At present, with British currency depreciated, the equivalent dollar values of these rates are about one-third less than those indicated.

Table 1.- Tobacco, Flue-cured: Price per 100 pounds for selected grades and qualities, types 11a, 12 and 13, 1931-32 with comparisons

Type 11 a, Va. and N.C. :				Type 12, N. C. Belt :				Type 13, S.C. Belt :			
		:1931-32 :		:1931-32 :		:1931-32 :		:1931-32 :		:1931-32 :	
Grade		:as a per:		:as a per:		:as a per:		:as a per:		:as a per	
and		: 1931-:centage :		:centage :		:centage :		:centage :		: 1931-:centage	
quality	1/	32 :	of :	of :	32 :	of :	of :	of :	32 :	of	
		: 1930-31:		: 1929-30:		: 1930-31:		: 1929-30:		:1929-30	
		Dolls:		Per cent:		Dolls.:		Per cent:		Dolls.:	
		Per cent:		Per cent:		Per cent:		Per cent:		Per cent	
Wrapper grades											
2nd Quality,	A2F:	38.00:	87 :	80 :	- :	- :	- :	- :	- :	- :	-
3rd "	A3F:	29.10:	75 :	71 :	- :	- :	- :	- :	- :	- :	-
Leaf grades											
2nd Quality,	(B2L:	23.90:	65 :	61 :	29.60:	87 :	72 :	31.60:	95		
	(B2F:	18.10:	53 :	51 :	28.60:	91 :	71 :	30.10:	84		
3rd "	(B3L:	19.00:	62 :	64 :	22.40:	79 :	70 :	26.60:	69		
	(B3F:	14.10:	55 :	49 :	21.40:	85 :	68 :	23.20:	83		
4th "	(B4L:	13.50:	57 :	57 :	16.10:	70 :	66 :	20.10:	83		
	(B4F:	9.50:	48 :	42 :	15.30:	78 :	67 :	15.00:	69		
	(B5L:	7.50:	51 :	42 :	9.80:	63 :	55 :	12.60:	64		
5th "	(B5F:	5.50:	46 :	37 :	9.50:	70 :	58 :	8.50:	48		
	(B5M:	3.50:	38 :	27 :	6.60:	65 :	50 :	5.90:	41		
	(B5G:	4.30:	56 :	38 :	4.80:	54 :	34 :	5.20:	53		
	(B6L:	3.80:	52 :	32 :	4.50:	50 :	39 :	5.70:	36		
6th "	(B6F:	2.50:	46 :	30 :	4.00:	54 :	40 :	3.80:	34		
	(B6G:	1.90:	39 :	26 :	2.80:	44 :	31 :	2.90:	28		
7th "	(B7F:	1.10:	31 :	20 :	1.70:	39 :	30 :	1.40:	17		
	(B7G:	1.00:	32 :	25 :	1.40:	35 :	25 :	1.40:	21		
Cutter grades											
2nd Quality,	C2L:	34.40:	91 :	76 :	35.60:	101 :	88 :	31.60:	95		
3rd "	(C3L:	26.10:	76 :	73 :	27.20:	89 :	90 :	29.90:	115		
	(C3F:	22.60:	68 :	67 :	26.80:	90 :	92 :	28.40:	101		
4th "	(C4L:	23.20:	73 :	84 :	22.40:	83 :	101 :	26.50:	122		
	(C4F:	21.30:	79 :	77 :	23.20:	89 :	101 :	26.70:	111		
5th "	(C5L:	19.30:	72 :	82 :	18.50:	81 :	95 :	24.00:	133		
	(C5F:	18.20:	73 :	77 :	20.10:	86 :	104 :	23.50:	107		
Lug grades											
1st Quality,	(X1L:	17.20:	71 :	80 :	16.50:	86 :	99 :	21.00:	114		
	(X1F:	14.80:	64 :	70 :	17.30:	84 :	103 :	20.30:	102		
2nd "	(X2L:	14.00:	73 :	79 :	11.90:	79 :	92 :	17.20:	109		
	(X2F:	11.60:	65 :	67 :	12.70:	78 :	102 :	15.80:	90		
3rd "	(X3L:	7.90:	60 :	61 :	7.40:	72 :	75 :	10.30:	84		
	(X3F:	6.80:	60 :	54 :	7.20:	63 :	77 :	9.50:	67		
	(X3M:	5.30:	55 :	52 :	6.60:	71 :	72 :	8.00:	65		
Lug grades											
	(X4L:	3.70:	51 :	45 :	4.10:	56 :	55 :	4.00:	40		
4th Quality,	(X4F:	3.00:	47 :	38 :	4.00:	57 :	56 :	3.90:	39		
	(X4M:	2.70:	50 :	43 :	2.70:	49 :	39 :	5.90:	42		
	(X4G:	1.90:	43 :	28 :	2.60:	46 :	29 :	2.70:	26		
	(X5L:	2.00:	49 :	34 :	2.60:	59 :	- :	1.80:	28		
5th "	(X5F:	1.50:	37 :	24 :	2.20:	52 :	- :	1.60:	28		
	(X5G:	1.30:	59 :	29 :	1.90:	46 :	- :	1.20:	16		

Division of Statistical and Historical Research. Compiled from reports of Federal-State grading work conducted jointly by The Tobacco Section, Bureau of Agricultural Economics and Departments of Agriculture and Extension Service in the several State

Table 1.- Tobacco, Flue-cured: Price per 100 pounds for selected grades and Qualities, types 11a, 12 and 13, 1931-32 with comparisons, Cont'd

1/ The code designations A2F, B2L, etc., are read as follows: First letter refers to "Group," A, wrapper, B, heavy leaf, C, cutters or thin leaves, X, lugs; numeral refers to "Quality," 1, first quality, 2, second quality, etc; last letter refers to "color," L, lemon, F, orange, M, mixed, G, green.

Table 2.- Tobacco products: Quantities withdrawn for consumption as indicated by sales of United States Internal Revenue Stamps, stated periods, 1930-31 and 1931-32

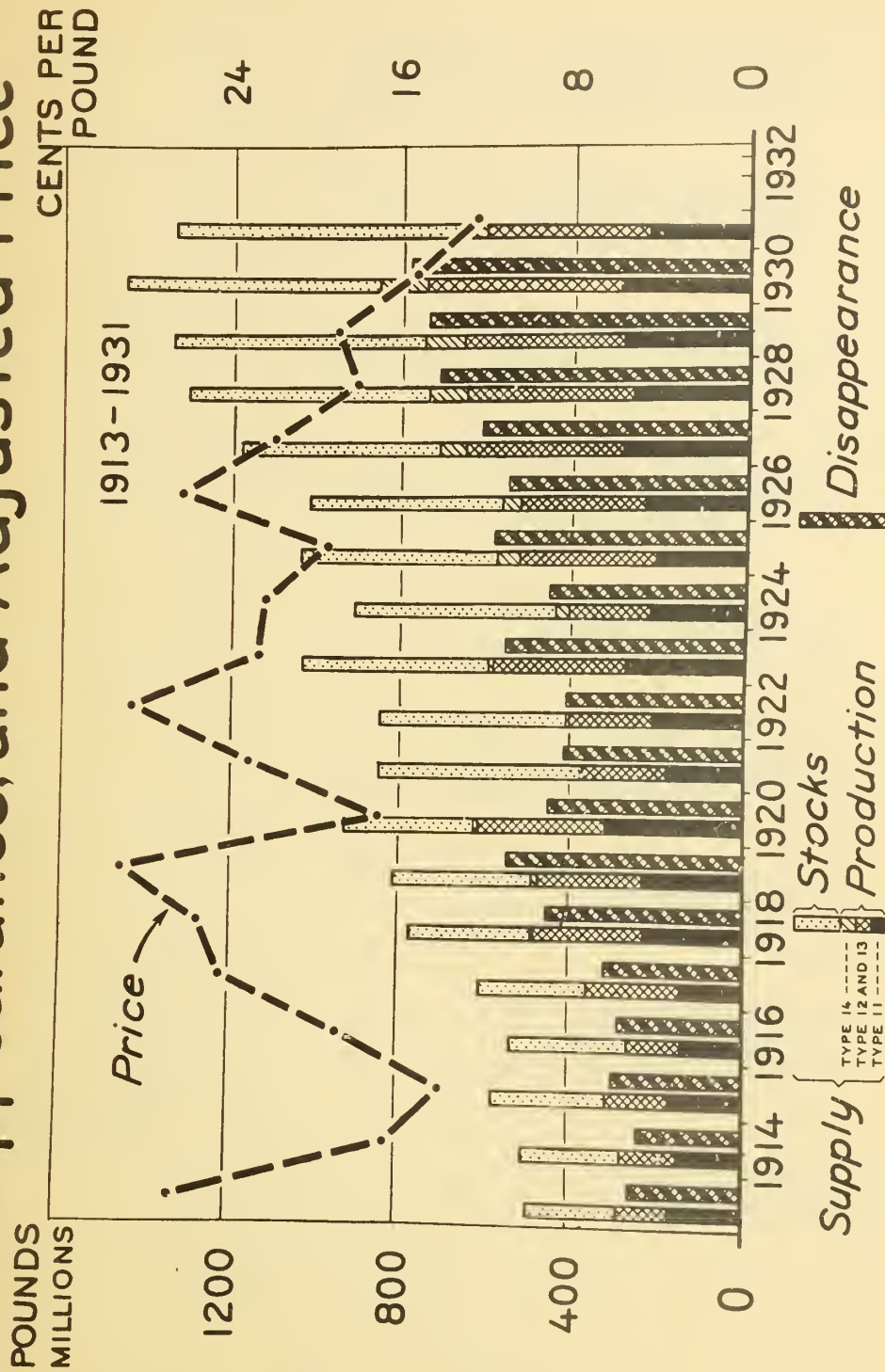
Products	Unit	9 months, July to Mar.			Mar.		
		1930-31	1931-32	Change	1931	1932	Change
		Millions	Millions	Per cent	Millions	Millions	Per cent
Small cigarettes . . .	no.	88,220.6	79,112.1	-10.3	9,804.0	8,446.6	-13.8
Manufactured tobacco	lbs.	1/ 241.8	245.1	+ 1.4	27.6	28.0	+ 1.6
Snuff	"	29.9	29.2	- 2.2	3.5	3.4	- 1.2
Large cigarettes . . .	no.	6.3	4.2	-34.0	.7	.4	-48.1
Small cigars	"	266.7	229.7	-13.9	33.8	20.8	-38.3
Large cigars 2/							
Class A		2,854.0	2,918.1	+ 2.2	319.9	285.2	-10.9
" B		268.4	57.7	-78.5	32.4	4.6	-85.7
" C		1,235.3	894.1	-27.5	109.6	79.1	-27.8
" D		82.1	55.5	-32.4	6.9	4.9	-29.3
" E		16.6	9.5	-42.7	.8	.3	-57.9
Total		4,454.3	3,934.9	-11.7	469.5	374.1	-20.3

Division of Statistical and Historical Research. Compiled from monthly reports of the Commissioner of Internal Revenue.

1/ Smoking and chewing tobacco combined.

2/ Classified according to prices at which intended to retail: A, not more than 5 cents each; B, 5.1 to 8 cents; C, 8.1 to 15 cents; D, 15.1 to 20 cents; E, 20.1 and over.

Tobacco, Flue-cured: Production, Stocks, Disappearance, and Adjusted Price

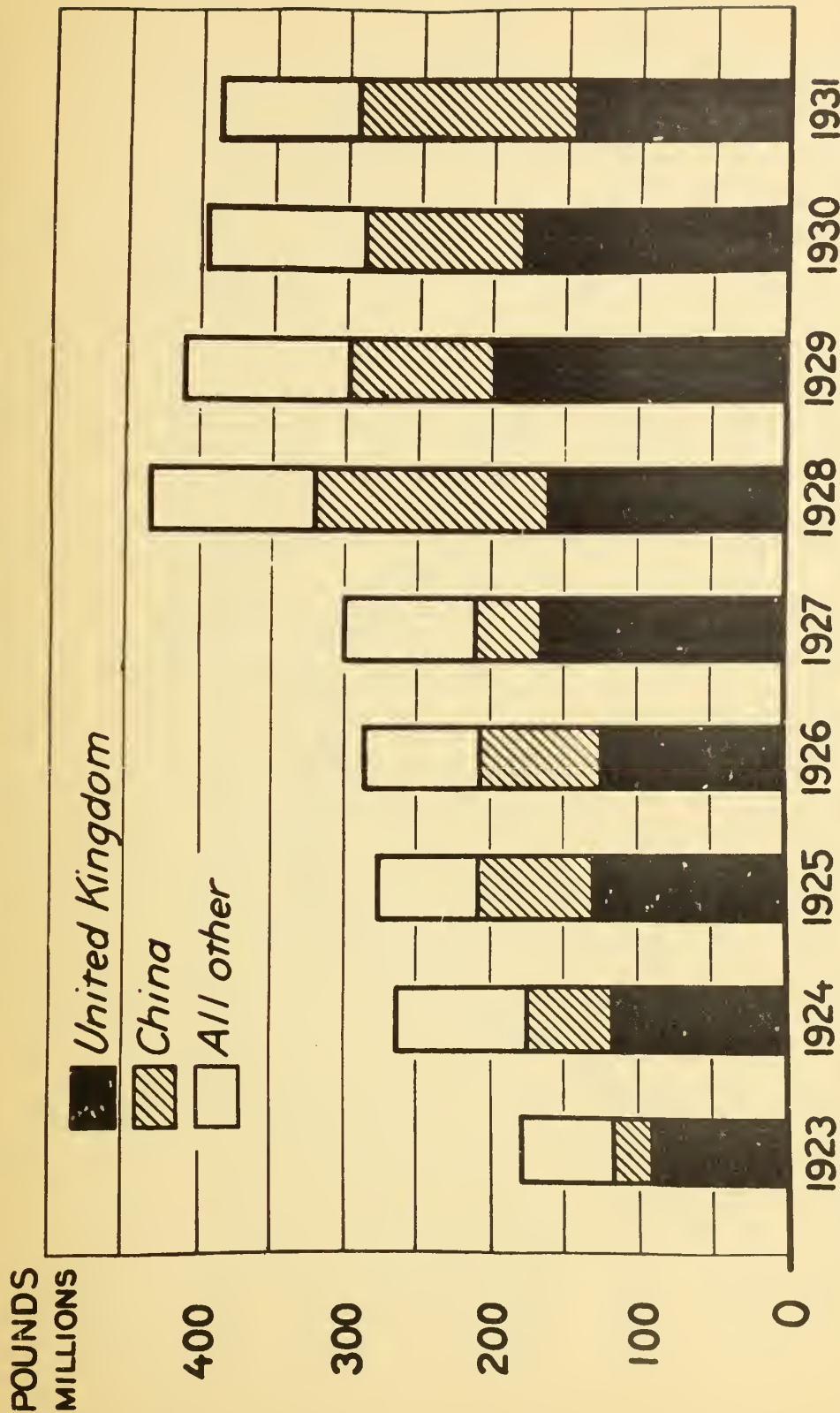


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FIGURE 1 - FLUE-CURED TOBACCO IS USED PRIMARILY IN THE MANUFACTURE OF CIGARETTES. DEMAND HAS INCREASED GREATLY IN RECENT YEARS, BOTH IN THIS COUNTRY AND ABROAD. USUALLY FROM HALF TO TWO-THIRDS OF THE PRODUCTION IS EXPORTED. WHEN SUPPLIES HAVE INCREASED FASTER THAN DISAPPEARANCE, PRICES HAVE DECLINED (SEE 1914 TO 1916; 1919 TO 1921; 1924 TO 1926 AND 1930). IN 1931, WITH DEMAND REDUCED, PRICE DECLINED EVEN THOUGH SUPPLY WAS SMALLER

Exports of Flue-cured Tobacco, 1923-1931

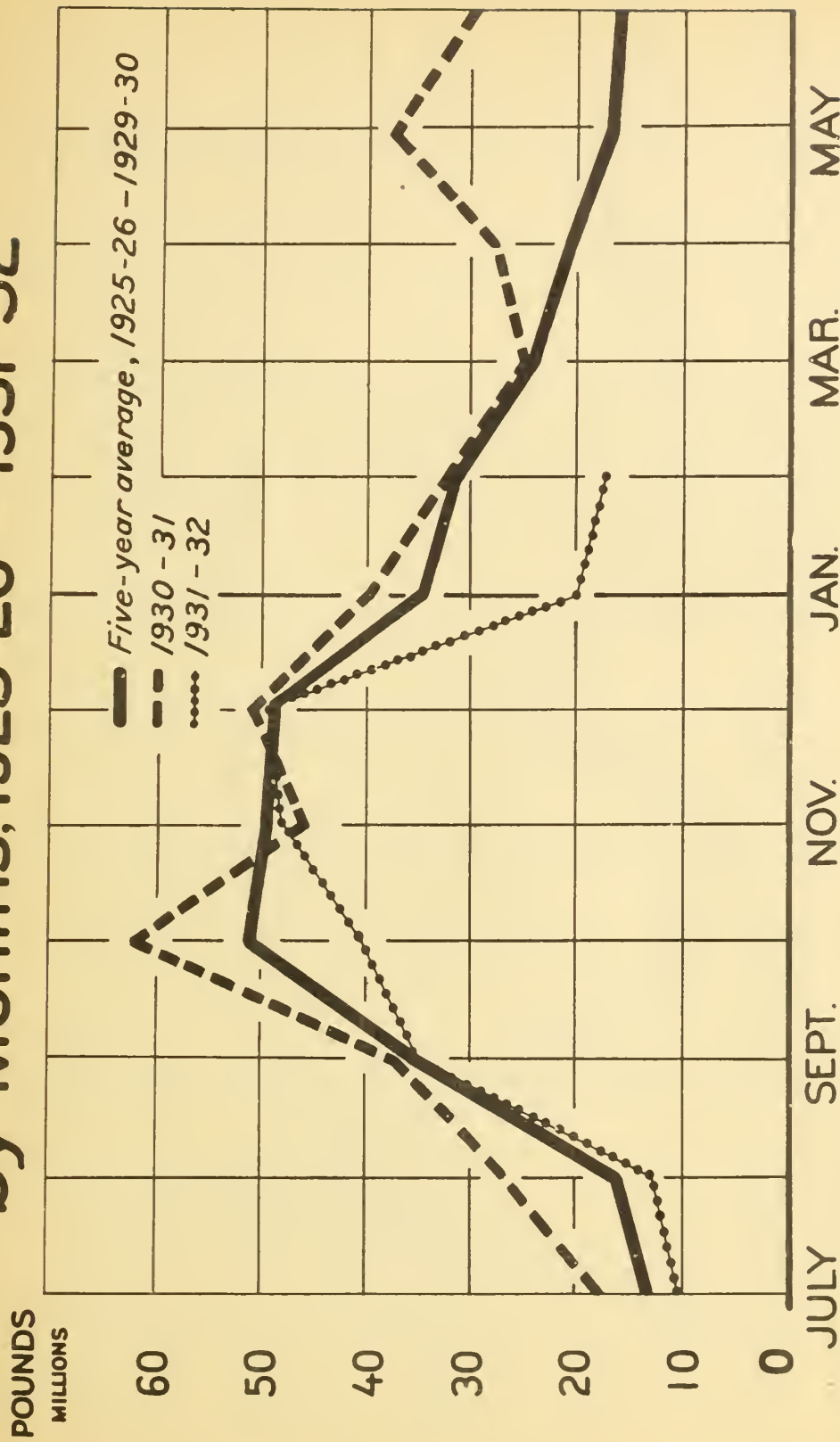


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FIGURE 2 - FLUE-CURED EXPORTS TO THE UNITED KINGDOM HAVE SHOWN A STEADY AND SUBSTANTIAL GROWTH; THOSE TO CHINA HAVE INCREASED MATERIALLY BUT NOT STEADILY. DUE TO HIGH BRITISH TARIFF (\$2.31 PER LB.) AND DISCRIMINATING TASTES OF SMOKERS, THE UNITED KINGDOM NORMALLY BUYS HIGH QUALITY TOBACCO. CHINA USUALLY IMPORTS MEDIUM TO LOW QUALITY LEAF. OTHER COUNTRIES OF IMPORTANCE ARE AUSTRALIA, CANADA, JAPAN, JAVA, GERMANY, NETHERLANDS, AND FRANCE

Flue-Cured Tobacco: Total Exports by Months, 1925-26 - 1931-32

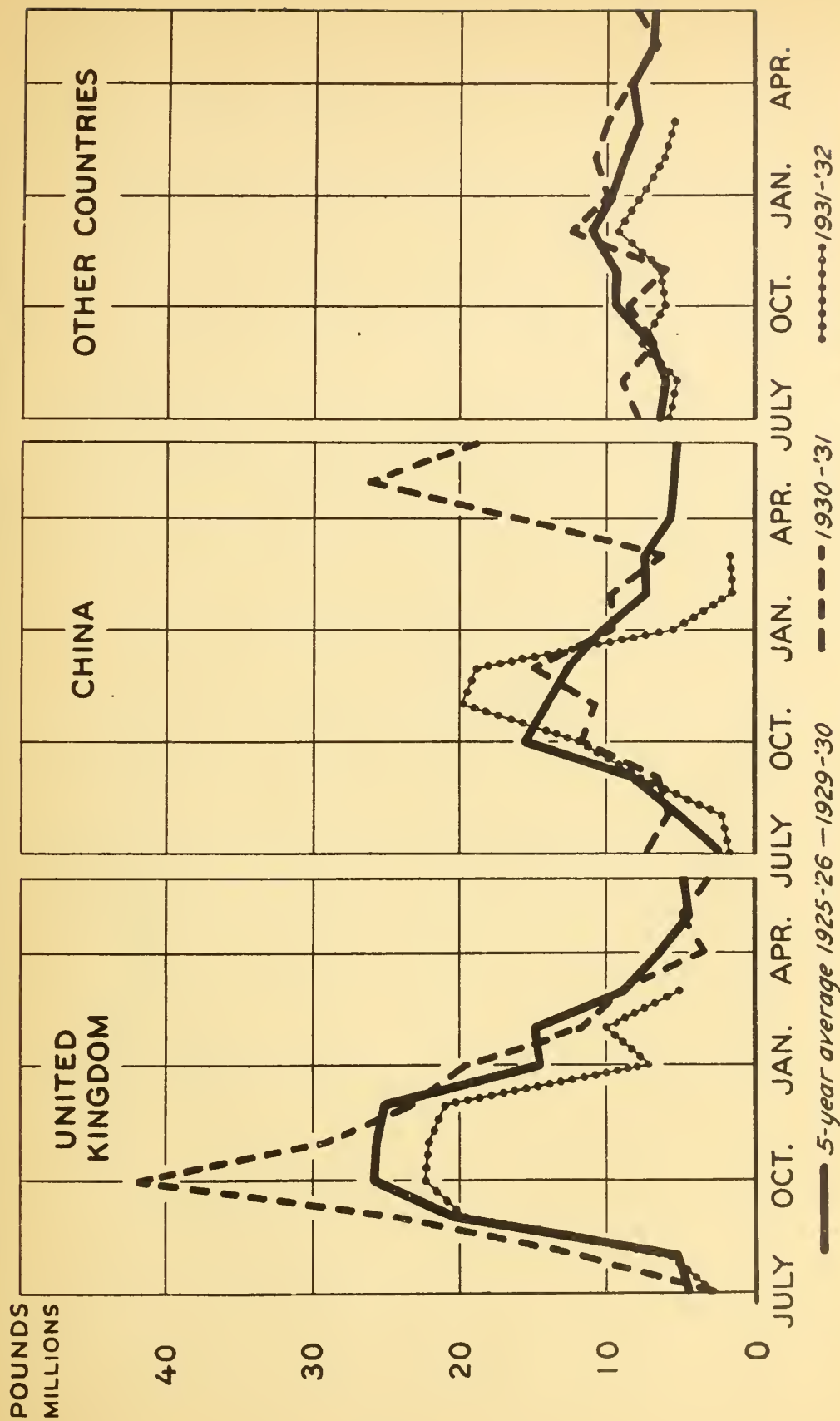


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FIGURE 3 - FROM JULY, 1931 TO MARCH, 1932, FLUE-CURED EXPORTS WERE 27 PER CENT LESS THAN FOR THE CORRESPONDING PERIOD IN 1930-31, 17 PER CENT BELOW THE 5-YEAR AVERAGE, 1925-26 TO 1929-30. IN NOVEMBER AND DECEMBER, 1931, EXPORTS TO CHINA WERE ENOUGH LARGER THAN USUAL TO PRACTICALLY OFFSET THE DECLINE FOR OTHER COUNTRIES, BUT SINCE THEN TOTAL EXPORTS HAVE BEEN GREATLY REDUCED

FLUE-CURED TOBACCO: EXPORTS TO UNITED KINGDOM, CHINA, AND OTHER COUNTRIES, BY MONTHS, 1925-'26 - 1931-'32



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FIGURE 4 - EXPORTS OF FLUE-CURED TOBACCO RECENTLY HAVE DECLINED FOR ALL IMPORTANT COUNTRIES. GENERALLY LOWERED BUYING POWER OF CONSUMERS, ABANDONMENT OF THE GOLD STANDARD AND AN INCREASE OF IMPORT DUTY IN THE UNITED KINGDOM, MILITARY OPERATIONS AND INTERNAL TAX CHANGES IN CHINA, AND FINANCIAL AND ECONOMIC DIFFICULTIES IN OTHER COUNTRIES HAVE ALL BEEN CONTRIBUTING CAUSES

